LESEDI LOCAL MUNICIPALITY
ANNUAL BUDGET 2014-15

PURPOSE

The purpose of this report is to present the annual budget for the 2014-2015 Multi Term Revenue and Expenditure Framework (MTREF) to Council for approval.

BACKGROUND

Section 24(1-2) of the Municipal Finance Management Act (MFMA) requires that:

"1) The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget.

(2) An annual budget—
- (a) must be approved before the start of the budget year;
- (b) is approved by the adoption by the council of a resolution referred to in section 17(3) (a) (i); and
- (c) must be approved together with the adoption of resolutions as may be necessary—
  - (i) imposing any municipal tax for the budget year;
  - (ii) setting any municipal tariffs for the budget year;
  - (iii) approving measurable performance objectives for revenue from each source and for each vote in the budget;
  - (iv) approving any changes to the municipality's integrated development plan; and
  - (v) approving any changes to the municipality's budget-related policies."

DISCUSSION

Overview of the Budget Process

As required by section 21 (1) of the MFMA Council approved an IDP/ Budget Process Plan for the 2014/15 Financial Year in August 2013. The plan outlined schedule of key deadlines for the review of the IDP and adoption of the budget.

Various consultation processes were held with stakeholders in terms of the process plan, at public participation engagements, during the first half of the financial year. Furthermore, engagements were held to discuss the IDP priorities and budget formulation and implementation. Inter-alia, the municipality considered National Treasury's budget circulars, which provided guidance and assumptions.

Budget assumptions

National Treasury issued MFMA/Budget Circulars 64, 66 and 67 indicating information relevant in the compilation of the 2014/15 budget. The following CPI's were used to project expenditure for the 2014/15 financial year as well as the two subsequent years:

Item	2014/15	2015/16	2016/17
Salaries	6.8%	6.4%	6.4%
General expenditure	5.4%	5.4%	5.4%

There has been an increment of 8,06% on electricity bulk purchases and 8,1% on water bulk purchases. The said projections were used to forecast revenue from services as well as to determine tariff increases for the 2014/2015 financial year. Tariff increments are discussed below.

The said circular advises municipalities to give attention to several areas of concern, among others:

- Revenue management
- Collection of outstanding debt
- Pricing services correctly
- Under-spending on repairs and maintenance
- Spending on non-priorities

One of the critical matters affecting the 2014/15 financial year budget is the review of the Local Government Equitable Share formula. The new formula is based on the 2011 Census outcome and not the 2001 Census which was previously used. The review of LGES formula was expected to address prior imbalances, considering the economic state of municipalities.

Division of Revenue Act 2013 has been issued, advising on the allocation of revenue raised nationally to other government spheres. It is outlined in the said Act, that the Lesedi's allocation for equitable share is estimated at R64 million, indicated in Division of Revenue Act, 2012 (DoRA, 2012), while Municipal Infrastructure Grant is estimated at R25 million. The proposed allocation has a significant impact on the municipality's fiscal position and its commitment to meeting its set objectives.

It was based on the above that, a conservative zero based budget approach be utilised to formulate the 2014/15 Draft Budget.

This approach resulted in the following:

1. The proposed increment of 8.06% of electricity bulk tariffs by Eskom. Bulk electricity purchases in this proposed budget are R163,830,000, which is an increase of R5, 299,000 on the adjustments budget amount of R158,531,000.

2. The proposed increment of 8.1% proposed by the bulk water supplier, Rand Water. Bulk water purchases in this proposed budget are R51, 523,000, which is an increase of R10,781,000 on the adjustments budget amount of R40, 742,000.

3. An increment of 6.8% (CPI of 5.8% plus 1%) on salaries as per the multi-year Salary and Wage Collective agreement and MFMA Circular 66 and 67. The same percentage increment was applied for Councillors allowances on Grade 3.

4. Depreciation is provided for, based on the guidelines of MFMA circular 58, which advices on the implication of re-valued asset as required by GRAP 17. The budget amount for depreciation and asset impairment after the revaluation is estimated at R40,000,000. The provision was correctly accounted for, within table SA1, of the accompanying schedule.

During the 2013/14 financial year, the gazette on determination of upper limits on councillors' remunerations indicated that the municipality may make provision for additional benefits, i.e. tools of trade and other benefits. Due to funding availability, the provision of the proposed benefits was limited to affordability levels.

<u>Overview of alignment of the Budget with the IDP</u>

The strategic objectives as per the draft IDP would be addressed by the budget. This is still work in progress.

A reconciliation of the IDP strategic objectives and the budget are being populated in the budget supporting tables SA4 (revenue), SA5 (operational expenditure) and SA6 (capital expenditure).

Measurable Performance Objectives and Indicators

MFMA Circular 13, advises municipality to formulate the Service Delivery and Budget Implementation Plans (SDBIP), after adoption of the budget. The draft SDBIP will be informed by the approved budget and will be tabled to the Executive Mayor 14 days after approval of the budget, while the final SDBIP will be signed by the Executive Mayor within 28 days of approval of the budget, as legislated.

Funding of the budget

In terms of section 18 of the MFMA,

"(1) An annual budget may only be funded from—

(a) realistically anticipated revenues to be collected;
(b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
(c) borrowed funds, but only for the capital budget referred to in section 17(2).

(2) Revenue projections in the budget must be realistic, taking into account—

(a) projected revenue for the current year based on collection levels to date; and
(b) actual revenue collected in previous financial years."

Furthermore, National Treasury issued MFMA circular 64, which provides more guidance on revenue matters.

Tariffs increases

It is well understandable that the municipality's ability to fund its operations is also based on its own generated revenue. MFMA circular 58 advises municipalities to apply cost-reflective tariffs. The following tariff increments, based on the same tariff structure approved in 2012/13, are proposed to be effected in the 2013 / 2014 financial year.

Assessment Rates	-	6%
Electricity	-	7.39%
Water	-	7%
Sanitation	-	10%
Refuse	-	7%
Other income	-	6%

The electricity tariff application is still subject to approval by NERSA. The number of households receiving services has been populated in Table A10.

Revenue

Proposed revenue for the 2014/15 financial year is as follows:

Item	Audited figures 2012/13 R'000	Actual YTD 2013/14 R'000	Adjustment 2013/14 R'000	Draft Budget 2014/15 R'000	Movement Adjustment vs Draft %
Property rates	58,943	54,905	62,303	68,533	10%
Service charges-electricity revenue	196,589	130,200	237,278	208,385	(12%)
Service charges – Water revenue	59,001	43,900	71,562	67,132	(6%)
Service charges – sanitation revenue	16,487	12,400	19,413	17,851	(8%)
Service Charges refuse revenue	22,116	15,900	22,706	23,445	3%
Service charges - other	2,772	4,500	6,326	6,750	7%
Rental of facilities and equipment	3,014	1,388	5,633	3,195	(43%)
Interest earned-external investments	1,063	105	1,272	157	(88%)
Interest earned outstanding debtors	4,656	4,743	2,488	7,115	186%
Fines	168	141	500	211	(58%)
Licenses and permits	44	39	91	58	(36%)
Transfers recognised	93,509	54,339	84,298	113,803	35%
Other revenue	975	2,428	159	3,642	305%
Total	**458,816**	**324,988**	**514,028**	**520,277**	**1.2%**

The largest revenue items are electricity at 40%, grant income at 22% and water sales at 13%. The four items generate 75% of the revenue of the municipality.

Detailed information including the 2015/2016 and 2016/2017 outer years is also reflected by Table A4 of the budget tables as well as the supporting tables SA1 and SA25 (breakdown per month). Table A2 gives breakdown per General Finance Statistics (GFS) classification and Table A3 gives the breakdown per cluster.

Expenditure

Proposed expenditure for the financial year is as follows:

Item	Audited figures 2012/13 R'000	Actual YTD 2013/14 R'000	Adjustment 2013/14 R'000	Draft Budget 2014/15 R'000	Movement Adjustment vs Draft %
Employee costs	92,694	64,700	109,145	116,785	7%
Councillors remuneration	7,344	5,200	8,032	8,594	7%

Debt Impairment	81,963	61,492	61,492	86,061	32%
Depreciation	35,982	35,982	35,982	40,000	11%
Finance charges	6,982	4,500	6,373	6,750	6%
Bulk purchase: Electricity	151,032	151,610	158,531	163,830	3%
Bulk purchase: water	31,741	40,742	33,943	44,042	30%
Bulk purchase: sewer	6,358	6,920	6,799	7,481	11%
Repairs and maintenance	20,992	15,743	15,732	16,688	6%
Contracted services	682	515	579	614	6%
Other expenditure	51,195	65,431	57,464	69,357	21%
Capital expenditure (Own)		10,783	12,376	13,119	6%
Capex as per Dora funding		44,052	44,052	32,535	(26%)
Total Expenditure	**487,799**	**509,543**	**550,500**	**592,736**	**7%**

The largest expenditure items are bulk electricity purchase at 28%, employee related costs at 20% and capital expenditure at 8%. The three items make up 56% of the expenditure of the municipality.

Detailed information including the 2015/2016 and 2016/2017 outer years is also reflected by Table A4 of the budget tables as well as the supporting tables SA1 and SA25 (breakdown per month). Table A2 gives breakdown per General Finance Statistics (GFS) classification and Table A3 gives the breakdown per cluster.

Capital Budget

The Capital Budget amounts to R45,654,000 and is funded as follows:

National Government	R32,535,000	71%
Lesedi L.M. (own funded)	*R13,119,000*	29%
TOTAL	**R45,654,000**	**100.0%**

The capital list for the 2014 / 2015 financial year amounting to R45,654,000 is attached as per supporting table SA36. Further breakdown of the Capital budget per vote and department is given in Table A5.

Cash flow effect of the budget

The cash flow impact of the proposed 2014 / 2015 Annual Budget is as follows:

Item	Amount (R'000)
Income	
Property rates and service charges	393,209
Interest earned on service debtors	7,115

Item	Amount (R'000)
Grants received	113,803
Other income	6150
Total cash receipts	**520,277**
Expenditure	
Personnel costs	122,053
Finance charges	6,373
Bulk purchases	187,445
Other expenditure	64,446
Total cash payments	**380,317**
Total cash surplus	***139,960***

Budgeted cash flows are indicated in Table A7. A breakdown per month of the projected cash flow is recorded in supporting table SA30. A provision for doubtful debts of 15% of billings has been made as reflected under 'funding of the budget' above.

LC.MC-XXX/05/2013 RECOMMENDATION

1. **THAT** Council approve the annual budget of R520,277,000, which comprises of the Operational Expenditure of R592,360,000 and Capital Expenditure of R45,654,000 for the 2014/15 financial year as contained in the following tables:

   a) Table A1 - Budget Summary;
   b) Table A2 - Budgeted Financial Performance (Revenue and expenditure by standard classification);
   c) Table A3 - Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
   d) Table A4 - Budgeted Financial Performance (Revenue and Expenditure);
   e) Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding;
   f) Table A6 - Budgeted Financial Position;
   g) Table A7- Budgeted Cash Flows;
   h) Table A8 - Cash backed reserves / accumulated surplus reconciliation; and
   i) Table A9 - Asset management; and
   j) Table A10 – Basic Service Delivery Measurement

2. **THAT** Council notes the supporting budget tables SA1 to SA36 containing additional information on the proposed budget.

3. **THAT** Council approve the attached rates, levies, taxes and other tariffs for the 2014/ 2015 Financial Year and that the determination of rate levies be promulgated as required in terms of Section 14(2) of the Local Government: Municipal Property Rates Act, No 6 of 2004.

4. **THAT** Council take note that the electricity tariffs are subject to approval by the electricity regulatory body (NERSA), and that the approved tariffs be submitted to Council.